

Office of the President

TO MEMBERS OF THE COMMITTEES ON EDUCATIONAL POLICY AND FINANCE:

DISCUSSION/ACTION ITEM - POWERPOINT

For Meeting of November 15, 2007

PROPOSITION 92 – THE FEBRUARY 2008 CALIFORNIA COMMUNITY COLLEGE BALLOT INITIATIVE

RECOMMENDATION

The President recommends that The Regents discuss Proposition 92 and its potential impact on the availability of unprotected General Fund revenues, and consider whether the Board wishes to take a position on the measure. Potential positions which the Board may wish to consider include: (1) Neutral; (2) Neutral, noting concerns about the trend that this and other initiatives have on the availability of State General Fund resources for unprotected State programs, such as the University; and (3) Opposed.

BACKGROUND

A ballot initiative known as the *Community College Governance, Funding Stabilization, and Student Fee Reduction Act* will appear as Proposition 92 on the February 5, 2008, Presidential Primary Election ballot. It is sponsored by Californians for Community Colleges – a coalition comprised of the Community College League of California, the California Federation of Teachers, the Faculty Association of California Community Colleges, and the Los Angeles College Faculty Guild.

If adopted by the voters, the initiative would amend both the State Constitution and the California Education Code. The initiative would:

- Establish a new Proposition 98 (Prop. 98) enrollment growth mechanism to provide the community colleges with a separate guarantee of Prop. 98 funds.
- Require a State General Fund backfill guarantee for any community college district that experiences a property tax revenue shortfall.
- Reduce student fees from \$20 per unit (previously \$26 per unit) to \$15 per unit, beginning with the fall 2008 semester. It further restricts future student fee increases to no more than 10 percent annually or to the increase in per capita personal income, whichever is lower.

- Establish an independent, locally governed community college system in the State Constitution.
- Increase the membership of the California Community College Board of Governors from 16 to 19 voting members by adding two new members and changing one current “non-voting” student position to a voting member.
- Exempt executive officers of the California Community Colleges Chancellor’s Office from State civil service status and allow the Community College Chancellor to choose up to six appointments (these positions are currently appointed by the Governor).

Summary of Initiative

Guarantee of State General Fund Resources

The initiative would establish a separate Prop. 98 funding guarantee for the California Community Colleges, as well as a separate enrollment growth formula. Currently, the community colleges receive a portion of current Prop. 98 funding after decisions have been made about K-12’s budget needs. The community college portion of Prop. 98 funding has ranged from a high of 10.89 percent to a low of 9.67 percent. This range in the proportion of Prop. 98 funds represents tens of millions of dollars of revenue for the community colleges.

The initiative would establish a Prop. 98 guarantee of not less than 10.46 percent in FY 2007-08 and would calculate community college enrollment funding above this base amount on the greater of either: (1) the change in California population between ages 17 and 21, or (2) the change in California population between the ages of 22 and 25. Additionally, the methodology calls for an additional 1 percent increase in the enrollment growth calculation for each percentage point that the state’s unemployment rate exceeds 5 percent, with a maximum enrollment growth of 5 percent in any given fiscal year. These funding provisions can only be amended by a **four-fifths** legislative vote and corresponding gubernatorial signature or by another ballot measure.

The Governor and the Legislature recently have provided the community colleges with increases greater than that required by the current Prop. 98 guarantee even without the kinds of protections that would be provided by this initiative. The community college’s budget increased 9.1 percent in 2004-05, 14.6 percent in 2005-06, and 7.3 percent in 2006-07.

Student Fees

The initiative would reduce student fees from \$20 per unit (previously \$26 per unit) to \$15 per credit unit, beginning with the fall 2008 semester. It further restricts future student fee increases to either 10 percent annually or to the rate of increase in California’s per capita personal income rounded down to the nearest whole dollar, whichever is lower. To trigger a \$1 fee increase (from \$15 to \$16 per unit), California per capita personal income would have to increase by 6.7 percent or more, a growth level rarely reached in the state. According to the Legislative Analyst’s Office this rate of growth has occurred only once in the past 20 years.

The Legislature could only increase community college student fees with a two-thirds vote and must do so in “exclusive” legislation pertaining only to community college fees; it could not be done in the annual state budget act itself. A student fee reduction would require only a simple majority vote of the Legislature.

Governance Changes

The ballot initiative would alter the California Community Colleges (CCC) governance structure in several areas, as follows:

- Establish in the state constitution a system of independent public community college districts and a state-level Board of Governors of the California Community Colleges.
- Increase the number of voting members of the Board of Governors from 16 to 19 voting members.

The alterations to the membership of the CCC Board of Governors would consist of:

- Of the 12 public members appointed by the Governor and confirmed by the State Senate, three current or former elected members of local community college district governing boards would be required to serve on the Board. Currently two such members are represented on the Board.
 - Two voting student members would be on the Board. Currently, there is one voting student member and one non-voting student member.
 - Three voting current or former faculty members from a community college would be on the Board, with no requirement that the faculty be tenured. Currently, there are two tenured community college faculty members on the Board.
 - Two current or former employees would be voting members on the Board, with no requirement that the employee be classified. Currently there is one voting classified employee.
 - In addition, the initiative requires the Governor to appoint all Board members from lists provided by specified community college organizations. This provision has raised questions about whether the Board would continue to be a “lay board” or one composed of only “community college insiders.”
- Authority to employ and set compensation for executive officers of the system office exempt from civil service and to determine expenditures within the system office budget established by law.
 - Authorize the Board of Governors to appoint a system chancellor and up to six deputy chancellors and vice chancellors, to be exempt from state civil service.
 - Mandate in the Constitution that the Legislature shall provide sufficient funding in the annual budget act for State operations to provide accountability and leadership of the system of local community college districts.

The non-Constitutional governance changes included in the initiative can only be altered through a **four-fifths** legislative vote and corresponding gubernatorial signature or by another ballot measure.

Overall Fiscal Impact of the Initiative

The Legislative Analyst's Office (LAO) has completed its fiscal analysis of the initiative. That analysis concludes that the initiative could **increase** Prop. 98 funding by \$300 million per year for the 2007-08 through 2009-10 fiscal years, with the increase split roughly equally between K-12 and community colleges in the first two years, and almost exclusively to the community colleges in the last year. Beginning in 2010-11 and continuing forward, the LAO does not expect the initiative to have a fiscal impact on Prop. 98 funding levels for either K-12 or the community colleges.

The analysis also notes that reducing student fees would result in a \$70 million loss in student fee revenue in 2007-08, with unknown impacts going forward. The initiative does not backfill any losses in student fee revenue, although these reductions in student fee revenue are presumably offset by the significant Prop. 98 increases provided by the initiative.

Impact of the Initiative on the University

The University of California budget would not be **directly** affected by the initiative. However, the initiative creates the potential for the community colleges' share of the State budget to increase, and it does not provide any new revenue source to support that increase.

Absent new State revenues, unprotected State General Fund programs (such as the University) would be competing for a smaller share of available State resources if this initiative results in General Fund increases greater than what the Governor and Legislature would have otherwise provided.

Further, should the University face a significant General Fund decrease because of the initiative's funding guarantees, those reductions would likely result in pressure to raise University student fees to mitigate a portion of the General Fund decline.

Additional Considerations in Determining a University Position

The Regents infrequently take positions on ballot measures. For example, the Board did not take a position on the original Prop. 98 guarantee nor did it take a position on other recent ballot measures that resulted in guarantees of funding for such purposes as local government, transportation, and mental health. Over the past 23 years, The Regents have taken a formal position on only five non-bond related ballot propositions.

The Regents supported two measures – Propositions 111 and 172 – to address structural budgetary issues. In both instances, UC was actively involved in the negotiations leading to these fiscal measures being placed on the ballot by the Legislature.

- Proposition 111 (1990) [SCA 1, Garamendi] changed Prop. 98 funding formulas, modified the State appropriations limit, and increased gas taxes and truck weight fees to fund State programs.
- Proposition 172 (1993) [SCA 1, Alquist] established a 0.5 percent sales tax for public safety with an accompanying property tax shift to fund educational programs.

The three initiatives opposed by The Regents were all placed on the ballot through signature-gathering efforts and all had a direct impact on University operations:

- Proposition 36 (1984), the Howard Jarvis and Paul Gann initiative, would have added “restrictions on real property taxation, enactment of new tax measures, and charging fees.” The measure could have potentially restricted the University’s use of revenue-bond financing and placed restrictions on The Regents’ authority to set fees.
- Proposition 61 (1986) would have capped the compensation paid to public officials, including UC faculty and employees, to 80 percent of the Governor’s salary.
- Proposition 54 (2003), the initiative supported by then-Regent Ward Connerly, would have prevented the University and other State agencies from collecting data on race, ethnicity, color, or nationality. Under the initiative, UC would no longer have been able to collect this data about its own student body and there was concern that scholarly and research activities would be subject to the proposed prohibitions on using or collecting such data.

Organizations and State Officials Supporting the Initiative

According to its sponsors, the initiative “gives every Californian the chance to go to college. It makes community college education more affordable by cutting fees to \$15 per unit and limiting future fee increases; stabilizes funding for community colleges; establishes an independent system of public community college districts and Board of Governors; and it’s not a bond and does not raise taxes.” Organizations and State elected officials in support of the measure include:

California Federation of Teachers
Faculty Association of California Community Colleges
Los Angeles College Faculty Guild
Community College League of California
California School Employees Association
Sacramento Metro Chamber
North Bay Labor Council, AFL-CIO
Sacramento Central Labor Council, AFL-CIO
California Community College Association

Assembly Members

Hon. Mike Davis (D-Los Angeles)
Hon. Lloyd Levine (D-Sherman Oaks)
Hon. Curren Price (D-Inglewood)

Senators

Hon. Alan Lowenthal (D–Long Beach)
Hon. Carole Migden (D–San Francisco)
Hon. Gloria Negrete McLeod (D–San Bernardino)
Hon. Alex Padilla (D-Los Angeles)
Hon. Mark Ridley-Thomas (D–Los Angeles)
Hon. Jack Scott (D–Pasadena)

Organizations Opposed to the Initiative

California Chamber of Commerce (CalChamber)
California Teachers Association
League of Women Voters of California
Small Business Action Committee
California Business Roundtable
California Taxpayers Association
California Faculty Association

In opposing the measure, the CalChamber states, “the proposed Act would inflict an enormous amount of pressure on California’s already stressed general fund and possibly require major cuts from other programs funded from the same pool of money.” CalChamber also believes that this measure would result in “prioritizing one higher education system’s funding priorities over the needs of two other important systems – the University of California and California State University System.”

The California State University (CSU) is also considering opposing the measure. Chancellor Reed is recommending that the CSU Board of Trustees adopt an oppose position on the measure. The Board of Trustees will consider its position at its November 13-14, 2007, meeting.